

**Statement of the**

**National Grain and Feed Association and**  
**Oklahoma Grain and Feed Association\***

**Before the**

**Subcommittee on Conservation, Credit, Rural Development**  
**and Research**

**House Agriculture Committee**

**June 6, 2001**

\*Testimony also given on behalf of:

Colorado Grain and Feed Association  
Grain and Feed Association of Illinois  
Kansas Grain and Feed Association  
Indiana Grain and Feed Association  
Minnesota Grain and Feed Association  
Michigan AgriBusiness Association  
Nebraska Grain and Feed Association  
North Dakota Grain Dealers Association  
Northwest Agri-Dealers Association  
Ohio AgriBusiness Association  
Pacific Northwest Grain and Feed Association (Washington, Idaho, Oregon)  
South Dakota Grain and Feed Association  
Wisconsin Agri-Services Association, Inc.  
Texas Grain and Feed Association

Chairman Lucas and members of the subcommittee, I am Joe Neal Hampton, President and CEO of the Oklahoma Grain and Feed Association. I am here today to represent both the National Grain and Feed Association and the Oklahoma Grain and Feed Association on conservation policy. Also, by endorsement, the statement reflects the views of 14 other state grain and feed and agribusiness associations.

The combined membership of the Associations endorsing this testimony represent more than 4000 companies and farmer-owned cooperatives involved in buying and selling grain, warehousing, shipping, feed manufacturing, feeding operations, and grain processing. While our member firms are generally not directly engaged in farming, they are the first customers of farmers beyond the farm gate, and they work and live in communities where farming is an important part of the economy.

My testimony today will make the following recommendations: First, the Conservation Reserve Program, while successful in meeting its environmental objectives, should not be increased from its current maximum of 36.4 million acres. Second, we would recommend that additional acreage entering the CRP continues be focused on filter strips and partial field enrollments to more effectively use CRP resources to improve water quality, and to minimize whole farm enrollments that may hamper rural economic activity. Third, we would urge the administration of the program to minimize the incidence of the maximum 25 percent of farmland in individual counties to be enrolled in the CRP, again, so as to not create steep declines in economic activity in such areas. Fourth, conservation programs need to be geared to other farming operations, such as animal feeding operations, to better protect land and water resources.

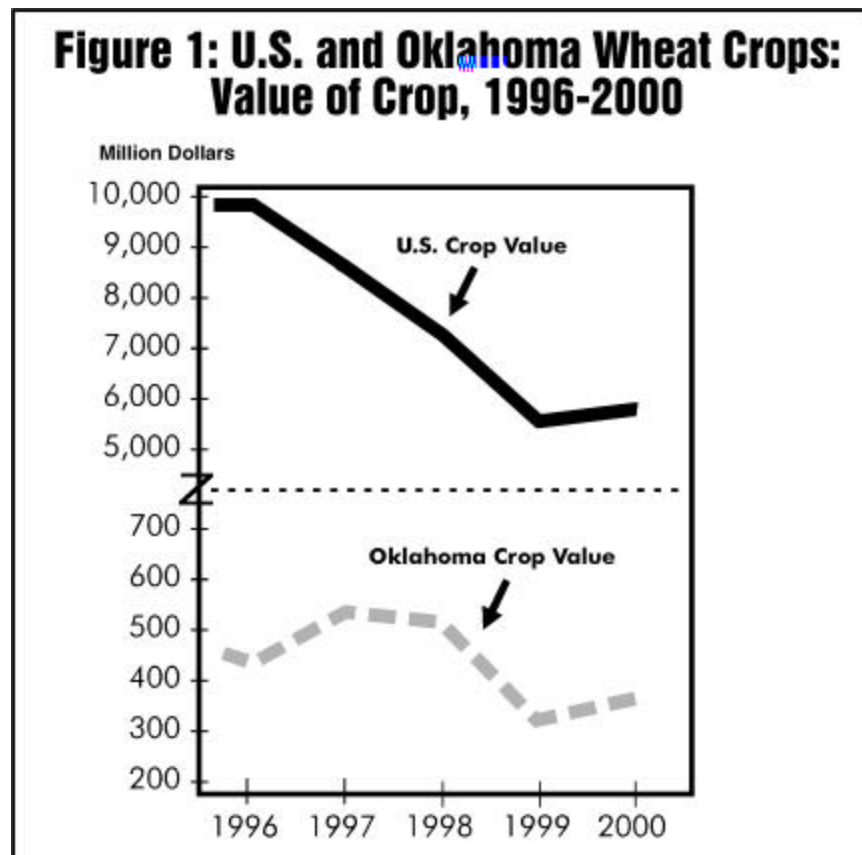
### **Conservation Reserve Program Should Stay Focused on Conservation/Environment**

Since 1996, legislation has called for and the CRP program has been administered to achieve environmental objectives by imposing certain environmental vulnerability requirements on acreage eligible for enrollment into the program. The acreage must meet certain conditions (e.g., likelihood of soil erosion) or be dedicated to conservation uses, such as riparian buffer strips, to be enrolled. This has been a constructive change, and with it, a number of studies have estimated considerable environmental and wildlife benefits have been achieved through the program. However, the benefits of the CRP for enhancing water quality, estimated by USDA at \$2.36 per acre is considerably less than the estimated non-market benefit for wildlife viewing of \$10.02 per acre. As U.S. agriculture attempts to minimize the crop and livestock industries' operational impacts on water quality, we urge Congress and USDA to further emphasize the use of remaining CRP acres to enroll buffer strips and other partial field techniques to minimize the adverse impacts on water quality. Moving away from whole field enrollments would also tend to lessen the adverse impacts on local communities (discussed below).

## **Conservation Reserve Program: Market Impacts**

The issue of conservation does not relate directly to farm income, but the discussion about all future farm-related programs is taking place in the midst of relatively depressed market economic conditions in many of the major wheat states. An economist at Kansas State recently stated that crops are so poor in the Kansas-Oklahoma region this year that many farmers could generate negative net incomes even if they purchased crop revenue coverage.

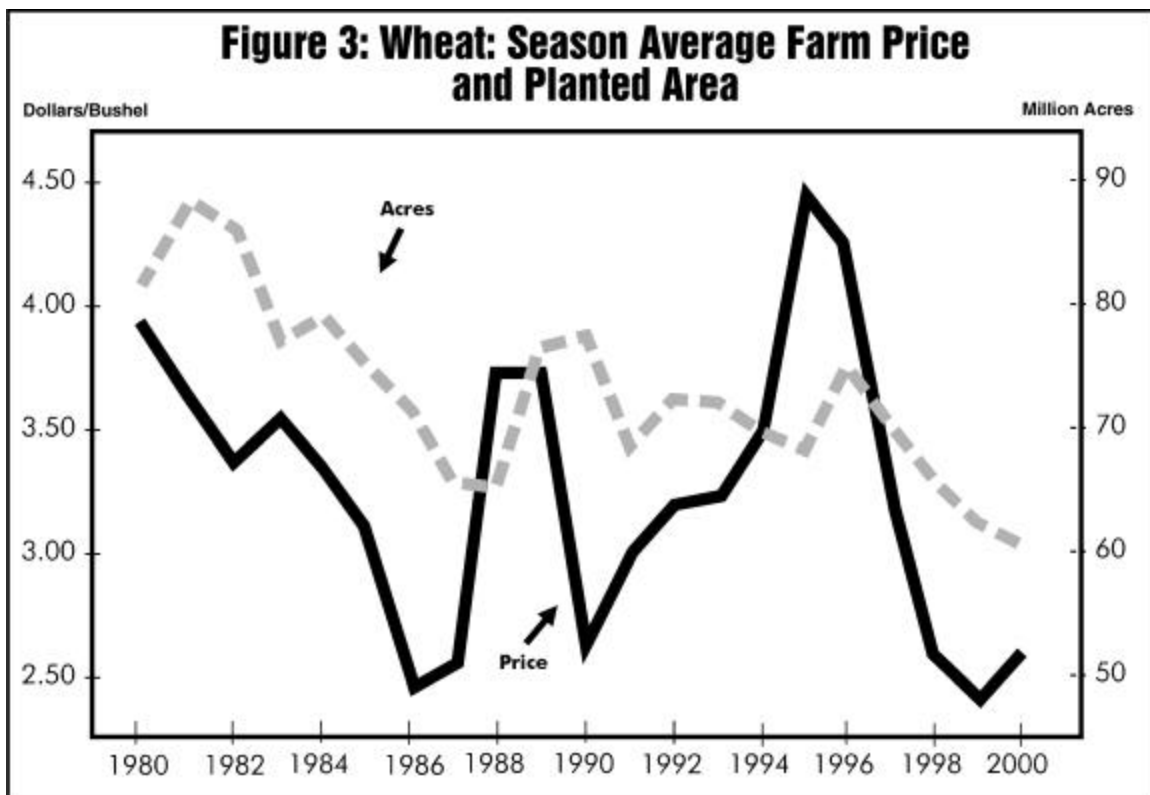
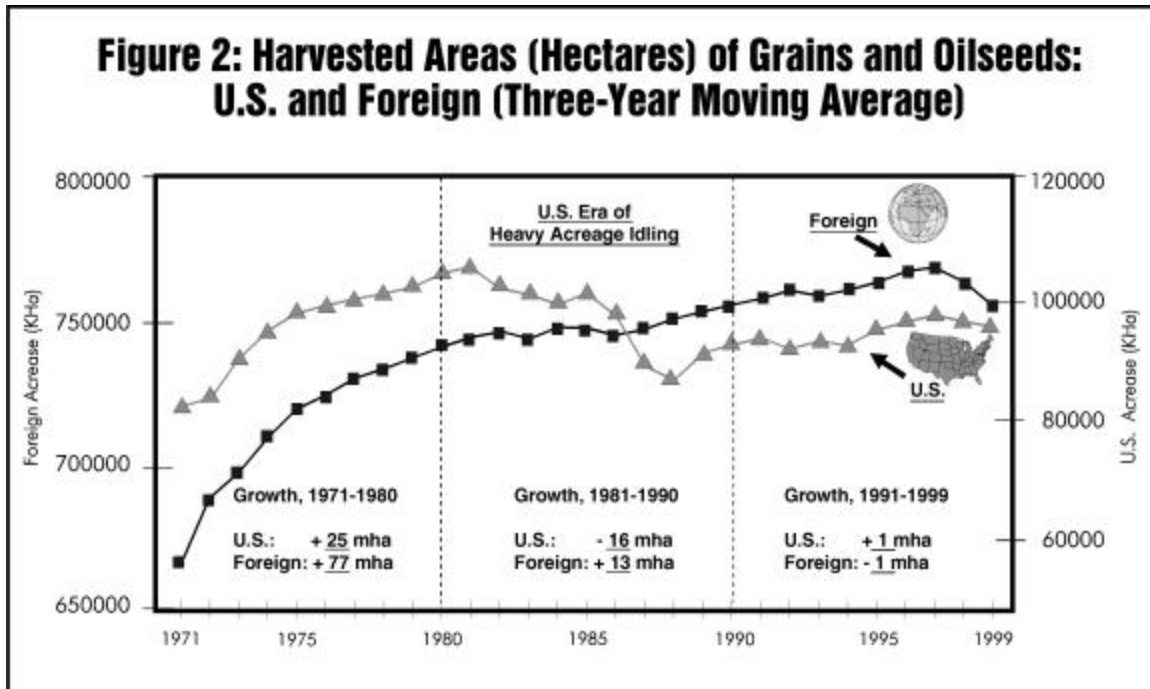
The value of both Oklahoma and National wheat production has been declining in the last four years (See Figure 1). The projections for the 2001 national crop indicate a total crop value slightly less than \$6 billion – about the same as for 2000. Low incomes caused by the decline in both production and price have been supplemented through government direct payments, loan deficiency payments and emergency payments. But such low returns from the market are leading some to advocate the expansion of the Conservation Reserve Program in an effort to squeeze supplies to raise prices. We would strongly advise government against this policy approach.



The United States has used acreage idling programs since the 1930s with a dual goal of conserving soil and attempting to raise prices. When the U.S. held a more dominant position in agriculture, the U.S. could temporarily raise prices by “shorting” the market with heavy resource idling programs, but in the last 25 years, expanding global competition has made such efforts futile. What the United States does not plant on productive, non-environmentally sensitive acres, will be planted elsewhere around the globe – Europe, Canada, South America, Australia, India, etc. And the U.S. only produces about 10 percent of total world output of wheat, so any cutback by the U.S. is easily replaced. South America has put more than 30 million acres into production since 1980.

The United States, with its CRP program, currently idles 33 million acres of land. This represents over 10 percent of all the acreage devoted to annual field crops in the U.S. Other than the U.S., Europe is the only other nation that chooses to unilaterally idle substantial acreage. Europe is being forced to idle acres for budget reasons, because its high domestic supports are generating surplus production. Why don't other nations idle agricultural resources? It is costly---it actually tends to raise production costs because total fixed costs are spread over fewer bushels of grain. And, resource idling adversely impacts both local and national economies. Less grain production means fewer jobs in related sectors, such as agricultural inputs and the grain marketing sector.

While our industry is concerned about the low prices we are currently experiencing and would much prefer the U.S. farmer to earn income from the marketplace, we also recognize the futility of the U.S. government trying to help the farmer through artificial support of prices---whether through acreage controls or restrictions on marketing, through storage subsidy programs or other means. We tried those programs in the 1980s, and the result was that the U.S. cut back 16 million hectares (40 million acres) while the rest of the world planted 32 million more acres (see Figure 2). Not only did the production of grain shift out of the U.S., we also saw wheat export markets literally decline by 50 percent from 1980 to 1985. These policies led to the worst farm recession in many decades in the mid-to-late 1980s. The erosion in the U.S. competitive position has been substantially less since we have reduced acreage idling programs in the 1990s. Note that in Figure 2, foreign acreage has adjusted downward in the last two years more than any other adjustment in the last 3 decades. We would urge that government continue to provide farm income support, in particular as U.S. farmers continue to compete against subsidized competition from abroad, but that income support be delivered in ways that minimize distortions on plantings and prices for the long-term health of the sector. That is a sound strategy to grow marketplace farm income over the longer term.



With the exception of a few spikes in price, generally caused by weather phenomena, the long-term trend in price has been down, reflecting improved production efficiency, despite the downward trend in U.S. wheat acreage (see Figure 3). The decline

in U.S. wheat acreage just since 1996 is almost 20 percent. But prices have yet to stage a meaningful recovery. The strong U.S. dollar is helping to keep prices low, but foreign production of wheat also remains high. Non-U.S. production in 2000 was 520 million metric tons, just 4% less than the record wheat crop four years ago. However, global wheat stocks are beginning to decline, albeit slowly, so the stage is set for some gradual recovery in wheat markets.

### Impact of Expanded CRP on Local Communities

The United States is losing rural population quickly. With advances in technology, a single farmer can actively manage and cultivate substantially more land. Because farmers aggressively compete, this also means that it requires more land to support a family operation. An economic study conducted by University of Minnesota economists in 1994 found that the adverse impacts of a consolidating agriculture on families, rural populations, and local economies tended to be exacerbated by large-scale acreage idling programs. According to that study, acreage-idling programs shrink economic activity and push people out of rural areas---adding to the adjustment stress of consolidation. On average, the study found that from 1950 to 1990, 30 percent of the total loss in non-farm rural population was attributable solely to acreage-idling programs.

To demonstrate the local impact of idling acres, in Idaho, water shortages have forced utilities that produce hydroelectric power to pay producers to idle their fields, and thus not use any water for irrigation. According to the Idaho Rural Council, many communities are experiencing severe economic hardship as a ripple effect from the idled acreage – “farm implement dealers, seed suppliers, all of the small businesses that rely on the farmers aren’t getting that business this year. We’re losing them right and left.” While this situation resulted from a severe drought and not government programs, it nevertheless is a good example of what can happen to rural communities when acreage is set aside. The Conservation Reserve Program has had the greatest impact on local economies where the maximum of 25% of tillable acres has been enrolled in the program.

In Ellis County, Oklahoma, 63,000 acres are enrolled in the CRP. This accounts for more than 50 percent of the acreage that was tilled in 1988. Since that time, 23 local businesses have closed in the town of Shattuck, including not just agriculture-related firms but also restaurants, a doctor’s office, car dealers, department stores, grocery stores and gas stations.

In four central North Dakota counties where CRP enrollment is high, the number of grain elevators has fallen by 25% since CRP started. Population and employment have also declined. Two short-line railroad branches previously serving this area have been abandoned in the past several years. CRP is not the only reason for these reversals, but it no doubt played a part. When agribusinesses no longer sell supplies for those acres or handle production from those acres, there is a continuous cycle of decline. Absentee landlords receiving CRP payments do nothing to improve the economic life of rural communities.

### Impact of Expanded CRP on Tenant Farmers

Many landowners, in particular absentee landowners, would prefer leasing the land to government (under a long-term CRP contract) rather than to a tenant farmer, because it eliminates the need to actively monitor the land and its use. However, this aspect of the CRP program creates a perverse, unintended effect on tenant farmers, in particular beginning farmers, who are trying to assemble a farming unit that will support a family: it places additional barriers between them and a successful farming operation. Why is this a concern? The U.S. farmer population is growing increasingly older. In Oklahoma, the average age of those whose primary occupation is farming is 60. In the U.S., the average is 57. The average age of all farmers in Oklahoma and the U.S. is in the mid-50's. Rural America needs an influx of young farmers if it is to remain vibrant, but acreage idling erects an entry barrier of increasing proportions.

While the CRP rental rates are intended to reflect local market conditions, the program puts the U.S. government into active competition with tenant farmers for the use rights to land that has been actively farmed in the past. The National Farmers Organization in testimony to the House Agriculture Committee on May 3, 2001, stated, "CRP is utilized widely by retiring farmers and investors as an income source that artificially inflates land rental costs and discourages retired farmers from renting land to beginning farmers for a 10-year period." The influence of the CRP rental rates on cash land leases for farming is not as pronounced as it was under the program prior to 1996, but it remains a competitive factor that impedes overall cost efficiency, particularly in U.S. wheat production.

### Impact on U.S. Competitive Position

Previously in this testimony, we noted that it is futile to try to manage supplies to raise prices over a period of years, because our competitors respond by growing more. The U.S. wheat sector is a good example of this, and what can happen if we unilaterally "disarm" in competing in global agricultural markets.

Arguably, the Conservation Reserve Program has had its greatest impact in major wheat states. Figure 4 shows the top ten wheat-producing states, and the acreage in these states that is now in the Conservation Reserve Program. These 10 states, which typically grow about 70 percent of the U.S. wheat crop, now comprise 56.5 percent of total U.S. acreage in the CRP. This acreage idling program, coupled with lower wheat prices, has driven U.S. wheat plantings to their lowest levels since the late 1980s.

# **FIGURE 4: CRP ACREAGE IN TOP 10 WHEAT PRODUCING STATES (OCTOBER 2000)**

*(1,000 Acres)*

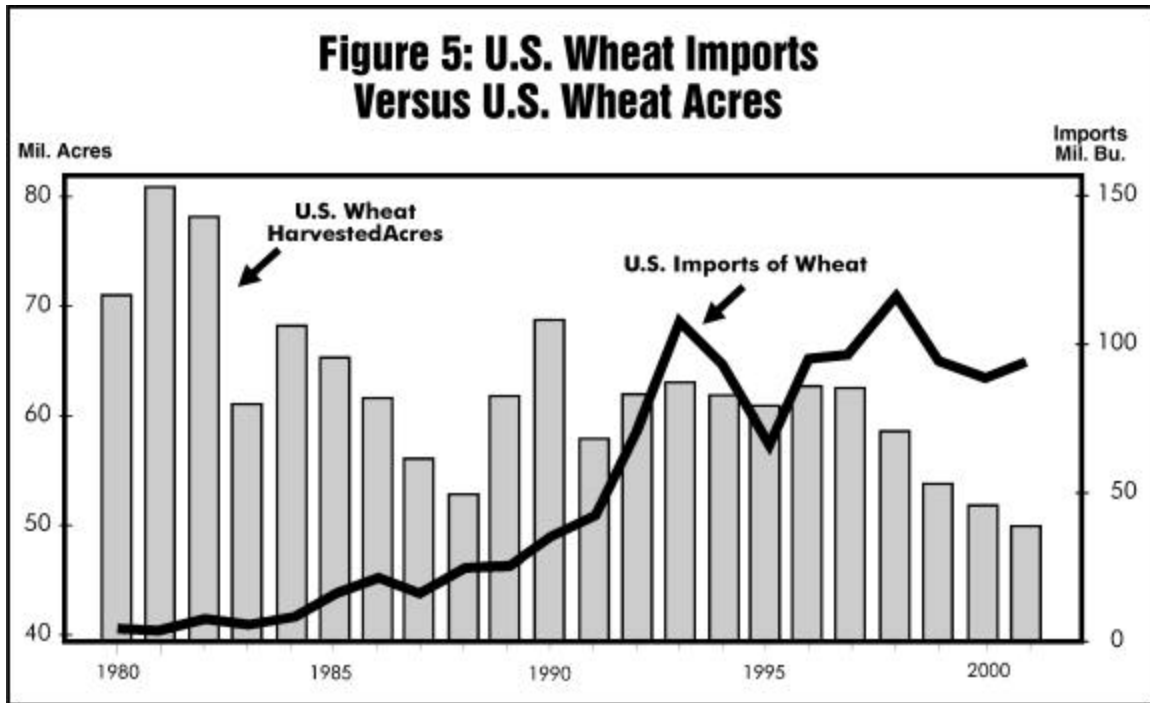
|              |       |
|--------------|-------|
| Colorado     | 2,206 |
| Idaho        | 800   |
| Kansas       | 2,669 |
| Minnesota    | 1,566 |
| Montana      | 3,457 |
| Nebraska     | 1,140 |
| North Dakota | 3,333 |
| Oklahoma     | 1,035 |
| South Dakota | 1,436 |
| Washington   | 1,265 |

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|                              |              |
|------------------------------|--------------|
| Total CRP: 10 states         | 18,907       |
| Total CRP in U.S.            | 33,475       |
| <b>% of CRP in 10 states</b> | <b>56.5%</b> |

Clearly, this movement away from wheat may reflect the pent-up need for adjustment in wheat production in the U.S. after moving away from government-driven planting decisions. But it is having the effect of attracting increasing levels of wheat imports into the U.S., too (See Figure 5). Again, the high value of the dollar today is part of the incentive for these imports, but the correlation of wheat imports with declining U.S. acreage is clear. Lower production in border states like North Dakota and Montana is tending to draw in Canadian hard spring and durum to fill U.S. market gaps.





The movement in U.S. crop production to other crops (such as corn, soybeans, and haying operations) and away from wheat is signaling that the U.S. may not have as much comparative advantage in wheat production as it does in other crops. At the same time, the U.S. should avoid policies that may further erode the U.S. competitive position in any crop. We know that exports will not always be strong enough to keep wheat prices consistently at attractive levels, but if we fail to have policies that position the U.S. to capture exports when they occur, we are damaging our own economic prospects. Exports still comprise 40-50 percent of total wheat utilization from U.S. fields. The U.S. can't afford not to compete for these markets. Simply put, further loss in export markets will mean there will be a lot fewer farmers than we have today.

#### The Need to Focus on Partial Field Rather Than Whole Farm Enrollment

The adverse economic consequences of large-scale land idling programs are most acute in those communities where large tracts of productive soil have been taken out of production, in particular those counties that have 25 percent of active cropland idled. In an effort to both minimize the economic impacts of this program, and to maximize the potential benefits for water quality, we urge greater emphasis on continuous partial field and filter strip enrollment up to the maximum of 36.4 million acres. A coalition of livestock organizations that testified at an earlier hearing recommended amending the CRP to keep "working lands working" and to emphasize enrolling buffers and portions of fields. Likewise a coalition of farm organizations representing major field crops are on record saying, "Programs that take land out of production should be managed so as not to take whole farms out of production." We fully concur with these recommendations for

re-directing the CRP program. Conservation programs that assist farmers in better conserving land that is being actively farmed need greater emphasis.

#### Other Conservation Programs Needed to Address Livestock Enterprises

A substantial portion of the member companies of the National Grain and Feed Association and its state affiliates are involved in feed manufacturing, animal nutrition, and integrated feeding operations. Animal agriculture consumes a vast amount of the grain and oilseeds that are produced in the U.S., so there is substantial interdependency between the sectors.

Livestock operations in many states face costly environmental regulations, and federal regulations under the Clean Water Act including Total Maximum Daily Load and the new proposed Concentrated Animal Feeding Operations requirements that will impose new permitting requirements and compliance costs on a large majority of animal feeding operations. Water and air quality issues related to animal agricultural production are receiving increased scrutiny at all levels, and to continue to be competitive in world markets will require the U.S. farmer to find cost-effective means of compliance with the regulations that are now in force or will soon become effective.

From our perspective, government programs directed at keeping U.S. agriculture globally competitive while contributing to cleaner water and air deserve a high priority and should be financially supported accordingly. A coalition of livestock organizations suggested one approach to amending the current Environmental Quality Incentives Program (EQIP). We would agree in particular with the following suggested changes to the EQIP program:

1. Amend EQIP to direct the Secretary of Agriculture to allocate EQIP dollars directly to livestock producers for the purpose of helping them meet federal, state and local mandatory manure management and water and air quality protection requirements. It would be helpful to permit programs to be directly accessible by producers rather than going through the state and local priority setting and bidding process.

2. The EQIP should be amended to permit all livestock producers, regardless of size, to participate in cost sharing arrangements with government. Some groups are advocating a cap on EQIP assistance funds similar to the cap on row crop producers under income support programs. Certainly, we would urge Congress to take necessary measures to manage overall program costs, but not design a program that essentially excludes certain classes of livestock producers or creates an imbalance in the cost structure for various sizes of enterprises. Achieving solid environmental benefits is the first priority.

3. The EQIP program should be amended to allow payments to producers during the year the contract is signed. Current authority disallowing payments until the year following contract signing can impede investment in necessary environmental technologies and delay early environmental benefits that might be achievable.

We appreciate the opportunity to testify. I would be glad to respond to questions.